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Foreign Trade and the Economic Recovery of France

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THE whole sociological system of Herbert Spencer is erected on the opposition between a military civilization, the source of restraint, and a commercial civilization, the agent of liberty. The crisis which for six years involved the world in war has confirmed this theory. The State, threatened in its existence, has invaded every field of human activity, letting fall upon the people the heavy hand of the recruiter, seizing and requisitioning goods as it saw fit. But, as the British proverb goes, even if a gallows were erected at every wharf on the coast business would go on just the same. Instead of a gallows, we have submitted to prohibitive regulations sanctioned by fine and imprisonment, and, in the meantime, in the face of a thousand obstacles, our merchants have maintained our economic life. Today, during this period of transition which is one neither of war nor of peace, they are endeavoring as rapidly as jealously closed frontiers are opened to reunite the broken bonds of international relations.

France, under the menace of hostile armies which vexed her soil with terrible battles, was compelled to extend to the farthest limit the jurisdiction of the State, the effect of which always operates to restrict individual liberty. But this inflexible sovereignty imposed by circumstances was not in the nature of her institutions. As soon as danger was removed from beyond the Rhine, she was eager to release the close network of oppressive regulations. Being able to count only on exports to reestablish credit and discharge foreign debts, France stands in the first rank of

those nations which aspire for the suppression of those "economic barriers" condemned by a great American voice.

In this short study, we shall review first those measures taken during the war, some of which have survived. In contrast with the first period, the period following will appear liberal to those who would be tempted to consider it excessive in its monopolies and its prohibitions. We shall then examine the fluctuations in the commercial policy of France since the Armistice, with its alternatives of commercial freedom and protection dictated by the variations in exchange rates. Finally, we shall deal with the satisfactory results obtained by the institutions of economic expansion created or reestablished by a great reform minister, M. Clementel, who had the unique honor of receiving the title of Minister of National Economy and, what is still better, of justifying it.

COMMERCIAL POLICY DURING THE WAR

The war, by militarizing all the resources of the nation, brought about the dictatorship of the State acting as an economic even more than as a political unit. From the outbreak of hostilities, the government took Draconic measures to prevent the waste of national wealth indispensable to the victorious conduct of military operations.

These protective measures invariably resolved themselves into serious blows at commercial freedom, extending even to its complete annihilation; less than three years sufficed for this evolution which began August 2, 1914 and was completed by March 22, 1917.

These restrictions, originally directed towards the enemy, extended successively to neutrals and to the allies, every other consideration disappearing before the safety of the state.

Reasons of policy led the French government first to forbid its nationals to trade with nationals of the enemy powers. This was the object of the decree of September 27, 1914 and the law of August 17, 1915. Then, when Germany declared, at the end of March, 1915, that orders would be given to her submarines to sink every ship, even neutral, carrying any goods whatever, even non-contraband, destined for or leaving French or British ports, the Entente powers replied March 16, 1915, by declaring a commercial blockade of Germany. This rigorous blockade obliged the French Government to take strict precautions to assure itself that goods destined for such neutral countries as were neighbors of the enemy powers would not ultimately be reexported to our enemies. For this purpose special organizations were created such as the Swiss Society for Commercial Inspection, The Netherlands Overseas Trust (Société Suisse de Surveillance Economique, le Trust Neerlandais d'outre mer), the purpose of which was to guarantee to the Allied governments that goods received there were not reexported to enemy territory. Finally, to permit enforcement of the prohibitions against trading with enemy nationals, even when residing in neutral states, blacklists were prepared and published in the *Official Journal*.

PROHIBITIONS

So far as neutrals and Allies were concerned, exports were the first to suffer the effects of the war. In order to conserve the national resources for the needs of the army and to prevent their serving to revictual the enemy, the government was compelled to adopt

restrictive measures immediately in the case of foods and raw materials. Availing itself of a forgotten law of December 17, 1814, a survival of Napoleon's continental blockade, authorizing the government "to suspend in case of emergency the exportation of the products of the soil and of industry," it promulgated, beginning December 21, 1914, numerous decrees concerning each of the determined commodities as fast as the services concerned declared the necessity of prohibiting the export of such articles hitherto considered as sufficiently plentiful or of no military use. These prohibitions, however, were not absolute. The Minister of Finance might grant permits in individual cases or permanently in the case of the Allied countries. But legislative enactments were far less important than other factors, for exports were reduced by the shortage of labor, raw materials and coal, and especially by the crisis in the carrying trade caused by submarine warfare, from nearly seven billions of francs in 1913 to less than two billions in 1915.

On the other hand, imports were from the first greatly stimulated by the needs of national defense. Prohibitions did not appear until the struggle assumed the character of a test of economic endurance. Then the State faced the need of reducing foreign obligations in order to avoid aggravating the exchange situation, and to increase the amount of capital at its disposal. Moreover, by prohibiting the importation of luxuries, transport facilities, by that time greatly reduced by the submarine warfare, were reserved for war material from the United States, and the enormous advance in freight charges was checked.

A law of May 6, 1916, still in force in January, 1921, authorized the government to prohibit by decree the entrance of foreign goods or to increase the cus-

toms duties. Parliament, hitherto so jealous of its rights over the customs, contented itself by ratifying these decrees several months after their promulgation. After diverse partial measures, aimed especially at luxuries and alcohol, the government finally, by the decree of March 22, 1917, prohibited imports entirely. The temper of the people was gradually prepared for the principle of prohibition, which, if applied in its entirety, would have suspended the economic life of the country. Goods were arranged in three categories: (1) those enjoying a general exemption from the prohibition; (2) those prohibited except for exemptions granted upon the advice of a Committee of Exemptions. (Comité de Dérogations); (3) those whose importation was authorized under certain determined circumstances.

Some months later, the increasing difficulties of ocean transportation made necessary a closer coördination between the importing services and freight facilities. A decree of December 13, 1917 created an Executive Committee of Imports, which, acting in accord with corresponding bodies in the other Allied States, was to decide finally upon the imports to be admitted. At the same time, the Inter-allied Purchasing Board was created, which strengthened the tendency toward the concentration of private purchasing in the hands of centralized bodies under government control. Finally, the Allied Council of Maritime Transport established the program of transporting commodities admitted by the Executive Committee of Imports.

COMPTOIRS AND CONSORTIUMS

Thus, at the moment when the State, at the desire expressed by the United States, became the sole buyer for France, first for meats and fats and then for cotton, the decree of March 22,

1917 provided for each authorized contingent of imports a plan of pro rata distribution of indispensable commodities among the different industrial and commercial groups. The result was the concentration of incoming commerce in the hands of State-controlled groups known as *comptoirs* and *consortiums* to which all firms consuming raw materials were obliged to apply.

As the holder of imported merchandise, the *consortium* established a common price for domestic and imported goods, and then effected a distribution of goods among manufacturers based upon their production capacity in such a way as to preserve for each of them, in spite of the scarcity of raw materials, a part, however reduced, of their activity. The most important *consortiums* were those of cotton, petroleum, petrol and newsprint paper. The régime of the *consortiums* permitted a satisfactory solution of the difficulties growing out of the war, and at the same time furnished the basis for an economic organization which will correct the excesses of individualism by the accepted discipline to which the members of a syndicate ought to submit themselves.

COMMERCIAL POLICY OF THE TRANSITION PERIOD

By one restriction after another, the State, dominated by the necessities of war, had reduced to naught the freedom of foreign trade which before August 1914 knew nothing of the insurmountable obstacle of prohibition and considered as its only barrier customs duties which were easily overcome. The Armistice did not immediately restore this happy era. For more than a year after November 11, 1918, France experienced that intermediate period between war and peace. Then, she was forced constantly to watch over the grudging execution of a treaty of peace which was accepted by the van-

quished only under the constant threat of force. Finally, more than half of Europe, from the Adriatic to the Baltic, still heard in December 1920 the clash of arms. This fundamental fact must be kept constantly in mind in making a fair estimate of the government's slow return to commercial freedom, and in appreciating at its real value the considerable effort of the French manufacturers.

Control of exports. In the period of depression following the war, the whole commercial policy of the government was directed towards economic expansion. Thus by successive measures of January 20, 1919, July 12, 1919 and August 28, 1919, in order to relieve the crisis of the high cost of living, the embargo on exports was finally restricted to the principal food products which continued to be very scarce, and to indispensable raw materials to the extent that these latter could not be obtained in quantities sufficient for national production. In January 1921, the commodities provisionally on the prohibited list were fresh meats, fats, milk, eggs, cheese, butter, cereals, fodder, fertilizer and pitcoal. However, these prohibitions were not absolute. The administration having control of the product in question might authorize its export upon the payment of a fee. Finally, to encourage them, all exports were exempted from the tax of 1.1 per cent on the volume of business levied by Article 72 of the law of June 25, 1920.

The export of capital and transferable securities was subject to a more rigorous and minute regulation by the law of April 3, 1918 which is to remain in force until January 1, 1922. Travellers abroad are permitted to take with them only 5,000 francs in French or foreign banknotes. The export of gold is formally prohibited. An allowance of ten francs silver is permitted.

For fiscal reasons as well as for the preservation of the artistic patrimony of France, a law of August 31, 1920 made subject to administration authorization, the export of "objects of a national, historical or artistic interest." The provisions of the law apply only to objects dating prior to 1830, to the works of painters, engravers, designers and sculptors who died more than twenty years before the date of export as well as to objects secured from excavations in France. These articles authorized to be exported pay a duty of 15 per cent *ad valorem* up to 5,000 francs, 20 per cent between 5,000 and 20,000, and 25 per cent above 25,000 francs.

Control of imports. Immediately following the Armistice, on November 25, 1918, the Minister of Industrial Reconstruction, M. Loucheur, stated his willingness "to assure the progressive return to commercial freedom for the various needs of industry." But on February 14, 1919, the same minister declared necessary the provisional maintenance of the prohibitions on imports because of the fact that "it is the whole problem of foreign exchange that dominates that of imports." The commercial policy of the government, inspired by a desire for freedom and condemned to restrictions, was compelled to adjust itself to the varying circumstances of the international economic situation, whence arises an impression of vacillation: liberal tendencies in 1919, the extension of prohibitions in April 1920, return to liberalism in July 1920, the restrictions increasing as exchanges fall. We shall examine these fluctuations of policy, and at the same time point out another characteristic of the evolution, the progressive abandonment of prohibitions offset by a moderate increase in customs duties, the protective effect of which was lost by a considerable increase in prices.

BRIEF RÉGIME OF LIBERALISM

In the weeks which followed the war, the feeling of relief was keen and widespread; there was assuredly an illusion that the régime of constraint would soon come to an end. A notice which appeared in the *Official Journal* for December 25, 1918 declared: "Every effort will be put forth to return as soon as possible to freedom in commercial transactions." And indeed Parliament and the Government entered resolutely upon this course as is witnessed by the law of January 20, 1919, the decree of the same day and the order of March 19, 1919 which exempted from the general prohibition on imports (decreed March 22, 1917) 350 articles out of 654 on the tariff schedules. The prohibition now applied only to yarn and textiles, metal and woodwork, miscellaneous manufactured articles and certain raw materials and foodstuffs, cotton, wool, flax, paper, metals, refrigerated meats, etc., over which "control was maintained to permit payments abroad for the best interests of the country."

Beside these general exemptions, particular exemptions from the prohibitions still in force might be granted by the competent administrative authorities who showed themselves to be quite generous. When the *consortiums* created for the centralization of foreign purchases were for the most part disbanded or transformed into private companies, the distribution of such wool and cotton textiles as were authorized to be imported, was made by the corporate groups interested.

This rapid return to commercial freedom was confirmed by various decrees in May, June and July 1919. On July 7, 1919, the list of prohibited articles of imports contained no more than a dozen items on the tariff schedules. Even these few interdictions were

solely motivated either by the existence of organizations charged with the distribution of imports (the National-Press Office in the case of newsprint paper), or, in the case of cereals, by a veritable purchasing monopoly conferred upon the State. The statement preceding the decree of June 13, 1919, which removed most of the prohibitions, justified this decision in the following words: "This measure, which is in accord with the vote of Parliament, constitutes a decisive step in that return to commercial freedom demanded by public opinion, and is adopted in order to counteract the high cost of living by assuring a more abundant supply to the home market and by stimulating domestic production."

In less than a year after the Armistice, then, France had returned to a régime of almost complete liberalism. But this happy situation was ephemeral, since most of the other states did not lay aside so hastily the economic armor of war. In the course of the year 1919, the value of our imports rose to nearly thirty billions of francs, while exports scarcely reached nine billions. The result was an unfavorable trade balance of twenty billions and a disquieting depreciation of 70 per cent in the value of the franc in international exchange.

This critical situation called for heroic measures. The decree of April 20, 1920 prohibited absolutely the importation of something like 200 articles on the tariff schedules. The statement of the motives for the new decree revealed the gravity of the crisis. "We cannot conceal the fact," said the ministers, "that the question is a vital one, for if we continue unwisely to make useless imports we shall end shortly by being unable to obtain abroad the credit needed to purchase necessary foodstuffs and raw materials. It would be superfluous to insist upon the economic and social consequences of such

a redoubtable eventuality. The study given to the matter by the departments concerned has demonstrated the necessity of prohibiting the importation of a whole series of luxuries and indispensable articles."

In truth it was rather a question of rousing public opinion than of averting instantly a general crisis. It was evident on reflection that the prohibited articles, although constituting a large proportion of the total number on the schedule, gave rise to comparatively few transactions, less than a billion francs for thirty billions of imported goods. Moreover, it was necessary to include in the calculations the treaties with Italy, Switzerland and Portugal which obligated France to admit a certain number of their products.

This severe régime, however, was even shorter-lived than that of relative freedom which preceded it. It lasted exactly three months and was ended by the decree of July 22, 1920 still in force, which keeps on the prohibited list only about twenty articles and those subject to individual exemptions. This was in effect a return to the régime instituted July 7, 1919. The consumer, upon whom the Minister had wisely urged economy, began more or less spontaneously to practice an abstention which did not distinguish between imported and domestic products and which brought about a fall in prices in the home market. At the same time, the unfavorable exchange stimulated exports beyond the most sanguine hopes. The government, satisfied with its warning of April, returned in July to the liberalism which it had not ceased to profess in its official declarations.

THE TARIFF AGAIN ON A PROTECTIVE BASIS

Complete freedom of foreign trade could not be reestablished, however,

except by placing the tariff on a protective basis again. The formidable rise in prices had effectively deprived it of its protective nature in the case of the specific duties which did not follow the variations in value of the articles subject to these duties. For this reason the government was compelled to avail itself of the power given it by the law of May 6, 1916 to increase customs' duties. In reality it was not a question of increasing duties so much as of restoring their pre-war efficacy. The policy of the government was clearly and vigorously set forth in the statement which preceded the decree of June 4, 1919.

"If freedom for imports," said MM. Clementel and Loucheur, "is an important element in commercial recovery, it must not be lost sight of that the most powerful factor in a general fall in prices exists in national activity, the source of production. Such activity, however, would run the risk of being paralyzed at a time when every effort should be put forth to reestablish the normal life of the country, if the removal of restrictions on imports, which opens our markets to foreign competition, is not counteracted by a protective tariff. Failing sufficient protection, free importation would be the death warrant of numerous industries. The existing tariff does not provide such protection since the increase in prices has made it for most commodities merely a nominal tax without any compensating effects.

"While circumstances compelled us to call in, at great expense, the holdings of foreign securities which had so profoundly disjointed our commercial balance, this step did not secure an immediate remedy, since production was destroyed in the devastated sections and, to a great extent, suspended by the force of circumstances in the remainder of the country. For the rest,

the restrictive régime, to the extent that it applied to imports, reduced considerably the influence of foreign competition. Such competition could not continue. Our exports at that moment were reduced to one-sixth of our imports, and we would have courted economic ruin had we not immediately taken measures to restore production so that the country might, so far as was possible, free itself from the heavy tribute paid abroad and retrieve by sales abroad a financial situation, the difficulties of which were obvious.

"This is why we consider a provisional tariff a necessary corollary of free importations, pending the tariff revision under consideration.

"We say provisional because it is not so much a question of raising duties as of restoring the equilibrium destroyed by price increases in such a way as to give to French industry the minimum of protection which it enjoyed before the war. This plan will appear less extreme when it is remembered that industry finds itself in the paradoxical situation of being less protected than in normal times, and of being helplessly exposed to a foreign competition which has lost none of its resourcefulness.

"The specific duties at present in force being so calculated by the legislative branch as to represent a given percentage of the value of imported commodities, this percentage will be reëstablished."

RÉGIME OF COEFFICIENTS

In order to reëstablish tariff equilibrium destroyed by price increases, the government first, June 14, 1919, superimposed on the normal duties, *ad valorem* surtaxes which equalized duties on the pre-war basis. This was to fall into all the vexations of *ad valorem* duties which revealed themselves immediately in practice. Hence,

as early as July 8, 1919, a decree established coefficients which represented for the various dutiable articles included in the reform the relation between the price of goods in 1913 and their price in 1918. But "the government being anxious to avoid as far as possible all the causes for rising prices and resolved to signify very distinctly its intention not to stabilize existing prices which are too often the result of mere speculation, has arbitrarily adopted the figure 3 as the limit of the coefficients." In practice most articles had applied to them only the coefficients 1.2-1.4-2-2.3-2.6, etc. Moreover, determined to avoid every pretext for a rise in the price of necessities, the government exempted from the surtaxes foodstuffs, natural or prepared, as well as raw materials and those partially manufactured articles which were essential to production.

Finally, the government undertook to follow closely the trend of prices, and, in case of a decrease, to reduce the coefficient so as to preserve constantly a fair relation with pre-war prices. For this purpose, an interministerial commission was organized whose duty it was to revise periodically the table of coefficients, that these might express as accurately as possible the relation between existing and pre-war prices. Up to the present, conditions in the international market have not permitted any change in the coefficients. On the contrary, when the prohibition on imports of luxuries decreed in April, 1920 was removed in July, certain of these articles, truffles, carpets, etc., were subject to coefficients of 4.5 and even 6.6.

This régime of coefficients was still in force January, 1921 for Parliament, slow to make use of its prerogatives, on December 31, 1920 renewed for one year the authorization given to the government to raise the customs duties by decree. But the right to decree

prohibition of imports and exports was taken from the government and re-stored to Parliament. The government with the approval of Parliament refused to fix the customs in gold. This system was adopted by a large number of European States and was characterized by premiums ranging from 200 per cent in Italy to 4,000 per cent in Austria. Since July 1, 1920, imported commodities have paid independently of customs duties a domestic tax on the volume of business in the form of an *ad valorem* duty ranging from 1.1 to 10 per cent in the case of luxuries. It is really not a tax on imports but a consumption tax, the legislators wishing to reach foreign goods to the same extent as domestic products.

Certain products, such as breadstuffs, coal and petrol, by reason of their vital importance from the social as well as the economic point of view were subjected to special treatment. This régime was characterized by rigorous State control which extended to price-fixing and even to a practical monopoly of buying and importing. Justified by war-time necessities, it extended into the period of transition preceding the return to commercial freedom.

STATE INTERVENTION IN BUYING AND SELLING

The Minister of Commerce, armed with the power to requisition, was charged with purchasing cereals and breadstuffs both in France and abroad and with distributing them on the basis of consumption needs, by a system of rationing. The State found itself in this dilemma: Either it must increase by considerable proportions its financial assistance to the wheat-growers which had already meant a sacrifice of five billions of francs, or it must see the price of bread mount to such a figure as would threaten the stability of the social order. The government hoped

that during the present year the forces making for reduction in prices would have some play; in fact it asked for and obtained an extension of this régime only until August 1, 1921, the next harvest. In asking for this extension, the Minister of Commerce declared: "The intention of the government is to re-establish commercial freedom but, of course, on conditions which will not provoke social unrest nor increase the burdens of the State."

As to coal, the price of this commodity which was 20 francs per ton in 1914 was more than 400 francs in 1920. As a result of the systematic devastation by the enemy, the output fell off from 41 million tons to 22 million, making necessary the importation of 48 million tons. Since the selling price was fixed at the highest net cost of production, this price would have been determined, not by the price of French coal, 87 francs at the mines, but by the price of the English product which had reached 500 francs. The government, therefore, intervened and created an organization—the National Coal Bureau—for equalizing prices. This bureau controls the importation of coal and rations it to consumers. Equalization of price was secured by applying surtaxes to French coal and by granting abatements to foreign coal. An improvement in stocks of provisions due to Germany's execution of the Spa agreement, and to the welcome competition between English and American coal (the importation of the latter increasing from 13,000 tons in January 1920 to 700,000 in November) gives reason to anticipate the early disappearance of State intervention in buying and selling. The Minister of Public Works announced to the Chamber of Deputies at the session of December 30, 1920: "I have shown by my acts that I intend to return as soon as possible and in the

greatest measure possible to free trade in coal."

As for petrol, both its purchase and sale were monopolized by the State under the cover of a *consortium* composed of the ten private companies which before the war were practically the only intermediaries between the petrol trusts and the French consumer. The State acted through the office of a Commissary General, a function in which Senator Henry Beranger rendered signal services. The French Government negotiated directly for purchases of petrol abroad. Once imported, the State resold it to the *consortium* at a trifling increase over net cost. The *consortium* then distributed it among its agents who were unregulated in disposing of it in the interior.

This régime will certainly end during the present year but it is not yet known what will take its place. The government after having declared itself favorable to a monopoly in buying and importing has at last proposed a law providing for "controlled liberty." The following conclusions presented by M. Lamoureaux in the name of the Committee on Public Works of the Chamber of Deputies would give us reason to believe that Parliament may not follow the government:

The régime of liberty has failed. It is this régime which in the midst of war left us without production and without shipping and then showed itself powerless to supply us with either. The State as producer and trader: this is the régime of complete monopoly. This also has failed. There remains one régime, the existing one, which comprises the monopoly of buying and importing but which sells imported goods through a consortium. This régime has proved itself. Improvised in the midst of war, it has met all the needs of France. Under it important advantages have accrued to the State. It safeguards the rights of the consumer by the government's ever-present control of prices. Let us keep it.

The evil consequences of the war continuing beyond all reasonable expectations, the commercial policy of France remains in an uncertainty which is justified by considerable price fluctuations and universal depreciation of currency. In reality, the total import duties paid in France amount to from 5 to 30 per cent of the value of the goods imported, which is certainly a moderate increase in comparison with the results of most foreign tariffs. But the effect of exchange fluctuation on imports offsets the effect of strengthening the tariff. Take for example an article whose intrinsic value expressed in gold is a hundred francs. The mere fact that its value is expressed in foreign money causes its price to rise to 300 francs in New York and to fall to 25 francs in Berlin. The obstacle to purchases in the United States lies in the mere price of the commodity and a tariff is superfluous, whereas, in the case of Germany, the price in effect places such a premium on imports as to annihilate the tariff.

The exchange situation, then, is that insurmountable barrier, which, in the vivid imagery of Mr. Lloyd George, repulses famished German customers from the windows of glutted English shops, while beyond the Rhine it constitutes an enticing bait to English buyers. Like the God of the Bible, *Exurientes implevit bonis et divites dimisit inanes*. In modern language, it is a case of nations suffering from the "indigestion of riches." The remedy consists in an intelligent and generous submission to the laws of international solidarity. In the presence of such a potent and widespread phenomenon, the régime of tariffs loses its importance for the time being. Therefore, the French Government was wise in adopting provisionally the system of coefficients. On December 20, 1920, the Minister of Commerce in the face of a protectionist

offensive undertook to follow this system "with prudence and moderation."

However, the government was compelled to raise the general tariff considerably in order to give a wider latitude to negotiators in view of the proposed conclusion of commercial treaties. Such was the object of the decree of March 28, 1921. But the United States having been expressly excepted in the case of such of their products as were subject to the general tariff, this increase was applicable in reality only to those countries which were to be refused the minimum tariff. This measure, then, was completely effective only in the case of Germany from which imports into France were favored by the depreciation of our currency entirely out of proportion to the increase in the general tariff.

But wise foresight is the best provision for the future. Hence in the midst of hostilities, the government, at the happy suggestion of M. Clementel, Minister of Commerce, took under serious consideration the future commercial policy which would be adopted as soon as a stable peace would permit it. On April 23, 1918, M. Clementel made known in an official note, the government's intention to denounce "those commercial conventions containing the 'most favored nation' clause or tariff agreements—in a word, every agreement of such a nature as to prevent the enforcement of the new commercial policy under which France expects to place herself."

These denunciations becoming effective all existing commercial agreements were to be extended for periods of three months at a time only, until a new agreement should be reached. So far, only one agreement has been signed, that of November 4, 1920 with Czecho-Slovakia. Several others are being negotiated, notably with Poland, Canada, Portugal and Belgium.

The government in making these agreements remained faithful to the general principles underlying the creation of the tariff law of 1892, which, after slight change made in 1910, is still in force. The law of 1892 was characterized by the principle of autonomy. Parliament was free to change rates and was not bound by commercial treaties, while the government was only permitted to conclude conventions which might be denounced on twelve months' notice. The principle of autonomy had to be reconciled with the necessity of granting certain reductions to the contracting powers. For this reason, a double tariff was established: a general tariff applicable in principle to all foreign nations and a minimum tariff favoring those nations which extend like advantage to us. There was an average difference of 50 per cent between the two tariffs.

The tariff régime, uniform in spite of very different situations and constantly alterable, was lacking both in flexibility and stability. The negotiators were held to a program too rigid to permit the granting of concessions comparable in importance to the counter-proposals which varied from two per cent in Belgium to thirty per cent in the United States. They were compelled to apply the minimum tariff to countries not in a position to extend like favors and the concession of this tariff became a precedent which was invoked against us in subsequent negotiations. It became a matter of considerable importance, therefore, to be able to consent to reductions from the general tariff comparable to those which might be conceded to us in return. M. Clementel, Minister of Commerce, sought this result and obtained it by the law of July 29, 1919. This law authorized the government to negotiate with foreign powers for a reduc-

tion of duties calculated in percentages of the difference between the general and the minimum tariff, such reductions to be made in return for like advantages.

It is to be noted that both the actual and the prospective reforms effected only a technical readjustment in the tariff of 1912, and, except in the case of the system of coefficients rendered necessary by increases in prices, did not tend towards a systematic increase in duties. The more influential manufacturers understood that the tariff system was not the most important factor in the economic development of a people. This was so true that during the crisis many of them refused to ally themselves with the extreme protectionist program. And the Senate Tariff Commission, in renewing the authorization to the government to use coefficients, declared through M. Noël:

"Do we wish to close the frontiers? No. Tariff measures ought only to be such compensations to the agricultural and industrial interests as will permit them to meet their competitors on equal terms—the correctives of varying economic situations."

But France had another motive more noble than her immediate interests for not abandoning herself to protectionism. France is essentially peaceful. She knows that political discord may arise from economic rivalries. It will be recalled how the discussion in Parliament in 1910 concerning increases in the tariff ended by an impressive vote in favor of progressive and universal tariff reduction. On the proposal of Juarès, the Chamber of Deputies adopted 521 to 1 the following motion: "The Chamber calls upon the Government to propose an international conference of the Powers interested, looking to a gradual and simultaneous reduction of tariffs."

INSTRUMENTS OF COMMERCIAL EXPANSION

In the economic struggle for freedom of domestic trade and the opening of foreign markets, the tariff régime is merely a defensive arm; the offensive is to be furnished by instruments of commercial expansion, able to coördinate the work of the various public services and to support private initiative which is to remain predominant. Thanks to the patience of M. Clementel, France now possesses under the law of August 25, 1919, a program of economic expansion comprehensive enough to meet all the requirements of her manufacturing and commercial interests.

The Ministry of Commerce and Industry was immediately reorganized so as to include the following: a division of commercial expansion and credit, a division of commercial agreements and a division of commercial information.

The ministry, thus reorganized, is able to know the needs of the country, to determine the principles of a national economic policy and to put these principles into practice with the support of the group of interests known as the General Confederation of French Production (Confédération générale de la production française) and the regional groups constituted in the economic districts (régions économiques).

NATIONAL FOREIGN TRADE OFFICE

But the work of a ministry is one rather of general supervision than of direct collaboration with producers. The latter duty was reserved to the National Foreign Trade Office, created in 1898 under the auspices of the Paris Chamber of Commerce, and made a national institution by the law of August 25, 1919. This official institution has for its purpose in the words of its charter "the furnishing to French

manufacturers and traders such commercial information as will be serviceable in developing foreign trade and extending markets in foreign countries and in the French possessions." This information is collected by correspondents, residing abroad, either by general investigations or by special inquiries; it is then carefully classified and placed at the disposal of interested individuals or groups. The office has been very successful in making available to domestic producers useful information concerning foreign markets and in discovering at home those able to profit by such information. It does not confine itself merely to supplying information; in a very real sense it makes possible the practical use of this information.

In order to give to the National Office the maximum influence abroad the government created in the most important commercial countries French Foreign Trade Offices. It is the purpose of these offices to aid manufacturers and traders in building up new relations abroad, and in developing further those already existing, especially by the following practical methods: the showing of samples, the choosing of representatives, the distribution of catalogues, the adjustment of disputes, etc. Offices at present functioning are those at London, Madrid, Rome, Zurich, Amsterdam, Bucharest and Stockholm and at Alexandria, the last, with agencies operating at Beirut, Constantinople, Smyrna, Saloniki and Athens, serves the near East. The National Office in France is the headquarters for those abroad.

COMMERCIAL AGENTS AND ATTACHÉS

The National Foreign Trade Office distributes information whose value arises largely from the value of its own investigations. But it ought, rather, to work almost entirely in conjunction

with our diplomatic agents, upon whom the proud tradition of the French kings, not "to behave as shopkeepers" too often rests heavily, and with our consular agents, more concerned with business and invariably competent, but absorbed in their administrative duties. The realization of the need of specialized experts in commercial information resulted in the creation (by the law of August 25, 1919) of a number of posts of commercial agents and attachés.

The attachés are commercial advisers to the embassies and legations to which they are assigned as well as inspectors, acting for the Ministry of Commerce, of all the organs answerable to the latter department: agents, offices, Chambers of Commerce, etc. The commercial agents are charged with the study, protection, and extension of French commercial interests within their jurisdictions. They are prepared to give instant and exact information on all practical questions concerning foreign trade. France now has attachés at London, New York, Rome, Madrid, Bucharest, Shanghai, Buenos Aires and Rio de Janeiro, and agents at Turin, Belgrade, Budapest, Prague, Frankfort, Vienna and Montreal. These posts will be increased in number as rapidly as the budget permits.

The enumeration of these organs of commercial expansion would be incomplete if no mention were made of the French Chambers of Commerce created in numerous foreign countries. As rallying points and centers for the coördination of efforts, these possess an organization capable of rendering valuable service to exporters. Finally, the Foreign Trade Advisers (Conseillers du Commerce Extérieur,) whose powers are to be enlarged will take a more active part in fostering exports. At the urgent suggestion of M. Clemel tel, President of their National Committee, they have founded regional

agencies, which, placed at the sources of production, will be able to direct abroad to the best advantage, commodities not absorbed by the domestic market.

The information furnished by these various agencies will give security to foreign trade. This security, however, would not be complete without a banking organization especially adapted to its needs. Before the war, manufacturers interested in exporting their products complained of being unable to secure long-time credits necessary for selling abroad. The banks of the mother country granted credit solely on the basis of the appearance of the seller without taking account (because they were uninformed) of what the buyer might be able to offer. There resulted from this serious deficiency a manifest inferiority, notably in comparison with England and Germany who were better furnished with banking facilities.

In order to remedy a situation so prejudicial to the vital interests of the country, M. Clementel, seconded by MM. Charmeil and Berrogain, brought about the creation of a French National Foreign Trade Bank (Banque National Française du Commerce Extérieur). This bank was founded by private initiative but was aided financially by the State and operated under its control. By the law of October 23, 1919, Parliament sanctioned an agreement entered into between the Minister of Commerce and Finance and the founders of a joint stock company capitalized at 100,000,000 francs. The company was organized at meetings held February 20th and March 4th, 1920 and since that date the bank has performed the functions authorized by its rules. It has at Paris facilities for the mobilization of long-term credit and has established branch offices in each important country abroad to

which exports are made. These latter are especially charged with the duty of presenting and collecting drafts and bills of credit, as well as receiving and verifying goods accompanying bills-of-lading, and, in general, of handling all information of interest to the National Bank.

TRANSPORTATION AND FOREIGN TRADE

Finally, foreign trade must have at its disposal the means of transportation which will assure as far as possible the distribution of its products. On the railways tariff reductions of from 10 to 25 per cent were made in the case of commodities intended for export regardless of the nationality of the consignee. But the most important rôle fell upon the merchant marine which for many reasons has not played its part perfectly. This is due largely to the necessity of paying foreign ship-owners for carrying services. This fact necessitated in 1913 an annual tribute of 500,000,000 francs which increased during the war to ten billion francs annually on the government's account alone. It is true that during the same period the submarine warfare reduced our merchant fleet from 1,922,000 tons to one million. But since the Armistice the government and the ship-owners have put forth efforts which promise a veritable regeneration. As a result of contracts signed by the Minister of Merchant Marine in 1918, important purchases in England and the United States, the partial recovery from Germany of ships sunk, and the renewed activity of the dock-yards, the French fleet has at present a tonnage of three millions, one million tons in excess of the figure for 1913. By the end of three years, France will have at her command a fleet of five million tons which is considered necessary in view of her foreign trade and colonial relations.

As in the case of foreign commerce, the State adopted towards the merchant marine a policy of freedom at home and of equal treatment of ships entering ports regardless of their nationality; even though in the latter days of the war the government had ordered the general requisition of the merchant fleet, it has just determined upon the liquidation of that part of the fleet still under its control.

RESULTS OBTAINED

We must now see this commercial policy with its two phases of protection and expansion in action and ascertain its results. It is the rôle of governments merely to set the stage and to put it at the disposal of the actors, who in this case were our producers. The brunt of the task fell upon the latter. To them is due the credit for the work accomplished.

In France, particularly, the task was difficult and its performance admirable. Because of the complexity of international relations, there is doubtless not a country in the world which has not either as belligerent or as neutral felt the evil consequences of more than four years of war. But whereas the more favored have experienced only functional troubles, France has suffered the loss of her own sons and her richest provinces; two million workers in their prime were killed or mutilated, ten departments systematically ravaged.

The French producer, already weakened in vital force, is of all the most handicapped in the struggle for world markets; the war imposed upon him a debt of two hundred billions of francs, the arrears of which amount yearly to ten billions, and a budget of forty-four billions, of which twenty-four billions only are covered by revenues, the remainder representing a debt which the debtor continues to avoid. To support

a like burden without weakening constitutes a trial without precedent in history. Hitherto a laborious nation, fortified by her political experience against the mirage of social revolution, France has learned to bear courageously the most difficult situations; during the war the people paid spontaneously into the Bank of France, 2,300,000,000 francs in gold, which aided in correcting the excess of paper currency; they are paying annually twelve billions more of taxes than in 1914; they have subscribed to six war loans to the amount of 87 billions of francs.

The French taxpayer, having performed this duty, prevented the ruin of the State in the shelter of which French manufacturers and traders carried on their activity. The latter, since the armistice, have taken up their work in a hostile world which has returned very slowly to normal conditions of international trade. During the whole of 1919 more than half of Europe owing to the persistence of war-time regulations was closed to French goods; relations with Germany were not reestablished until January 10, 1920, while Russia is still a closed world to regular transactions. Moreover, many countries returned to the family of nations only to close their frontiers by sumptuary laws to articles of luxury which are essentially the products of France.

It is important to recall these persistent obstacles to appreciate at their true worth the efforts made by French exporters. Their exports which fell from 6,880 millions in 1913 to 1,937 millions in 1915 rose to 8,713 millions in 1919 and will probably amount to 22,600 millions for 1920. This ten-fold increase in five years is prodigious. Fortunately it has been accompanied by a reduction in the disparity between exports and imports. Before the war, the excess of imports was ordinarily from 20 to 25 per cent, a normal

figure in old countries. The disparity reached 372 per cent in 1918; it was reduced to 242 per cent in 1919, and to 40 per cent in 1920.

Foreign commerce, having made an excellent beginning, will therefore be able to contribute to the amelioration of the financial situation which became serious only as a result of the enormous increase in international transactions at a time when credits abroad were diminishing. Indeed, the financial situation will be definitely stabilized only when Germany loyally agrees to assume the payment of heavy reparations. But this prime condition of a stable peace being fulfilled, only increased exports will permit the reestablishment of equilibrium of credits and foreign debts.

This formidable effort expressed by ten-fold exports in five years will be in vain if imports increase in the same proportion. Fortunately, this has not been the case, imports increasing from 11,036 millions in 1915 to 29,778 millions in 1919 and approximately to 34 billions in 1920. This increase is only three-fold compared to one of ten-fold in the case of exports. Even this reduction, however, has meant a deficit in trade balance of 20 billions of francs in 1919 and ten billions in 1920. This unfavorable balance lowers exchange rates, which in turn causes higher prices.

CRISIS IN RAW MATERIAL

Now the increase of prices in the home market has had the inevitable result of tripling prices for raw material which are the basis of all industry, the "key products" as the English say. The French are paying for coal, wheat, wool, cotton, oil, etc., three times their real value in the world market, with the resulting enormous totals expended in 1919; for coal, 2,670,000,000 francs; cereals, 2,348,000,000; wool, 1,235,000,-

000; cotton, 1,760,000,000 and oil, 648,-000,000. The utmost activity on the part of domestic industry only tipped farther the scales already so heavy with imports. The following are the figures for 1920; coal, 3,600,000,000; cereals, 2,800,000,000; wool, 2,330,000,000; cotton, 1,500,000,000 and oil, 1,100,000,-000.

Thus for only five products, imports, necessitated by the essential needs of industry, rose in a year from 8,601,000,-000 to 11,300,000,000 of francs. The practical question for French industry and French foreign commerce resolves itself into one of restoring a normal supply of raw materials. This is so true that the ten billion unfavorable balance of 1920 corresponds approximately to the increase in the value of raw materials. The needs of France for raw materials for her industries increased from five billion francs in 1913 to fifteen billions in 1920. There is another manifestation of this acute crisis in raw materials which is more significant, since it is expressed in terms of the quantity of goods exported. When exports of manufactured goods had, thanks to the activity of our manufacturing and trading groups, almost reached in quantity the figure for 1913, exports of raw materials remained at only half the pre-war amount.

AMERICAN CONTROL OF SITUATION

The principal factor in the crisis consists, of course, in the dearth of raw materials. This being understood, France is obligated to return to her purveyors, chief among whom is the United States, more than half a billion francs for meat and fats, more than a billion for cereals, 1,330,000,000 for cotton, more than 800,000,000 for oil, etc. M. Clementel understood this when, in the course of the discussion of the Treaty of Versailles, he said in the Chamber of Deputies, September 16,

1919: "There is every evidence that from the point of view of economic and financial recovery, it is America who holds the key to the situation."

But at the same time, the Minister of Commerce recalled the disappointment he had experienced in his attempt to treat with the holder of the precious key. Between the Armistice and the Peace Conference, he had exerted himself to secure agreements with England and the United States to maintain the interallied organizations dealing with raw materials. He was fortunate enough to conclude an important agreement with Lord Reading by the terms of which, he said, France "obtained the assurance of a supply of raw materials in sufficient quantity and at a price equal to that paid by England." But this agreement was to be enforced only in case the American Government undertook a similar engagement. The latter agreement was not realized and therefore the Franco-British treaty lapsed.

President Wilson, in neglecting to build his idealistic structures on sound economic foundations, erected a precarious work which was incapable of practical realization. France, thanks to her extensive resources, both national and colonial, exploited by an industrious

population, is able to avoid economic domination since the era of monopolies in raw materials is past; she is able to find cereals, meat, cotton and oil without being subject to the terms of a monopolist; too proud to be dependent, she will be able by a liberal commercial policy to submit herself to the laws of interdependence which national economy demands.

In order to bring to a satisfactory conclusion this work of coöperation, France will be happy to go forward in complete accord with the United States to achieve a truly beneficent peace, just as she has gloriously concluded the war. This is more than a hope for France; it is a certainty for her, since she has placed her trust in the solemn promise made by the American Government in September 1916: "It is manifestly our duty to seek the service of humanity by reserving our strength and our resources for the difficult and anxious days of reconstruction and recovery when peace comes."

The days of a peace which is uncertain both at home and abroad are inconceivably anxious and difficult. It is the part of the United States to shorten these days by contributing to the economic restoration of the world.

Public Finance in Ancient India

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BUDGET making is an essentially modern institution. It is only since the time of Napoleon that regular estimates of receipts and expenditures have been yearly prepared in France.¹

¹ Palgrave's *Dictionary of Political Economy* (Art. on "Finances-France") Volume II, p. 68; Leroy-Beaulieu's *Traité de la science des finances*, Volume II, pp. 11-12 (8th Edition).

In spite of the comparative abundance of reliable data no ingenuity of modern research has been able to reconstruct the sheet of liabilities and assets of the Roman Empire for any period, but the administrative history of Hindu India is yet in its non-age. It is out of the question, therefore, to attempt such wide guesses about the